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RUEHLO/AMEMBASSY LONDON 0516
RUEHFR/AMEMBASSY PARIS 0380
RUEHRO/AMEMBASSY ROME 0987
RUEATRS/DEPT OF TREASURY WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 LAGOS 000207

SIPDIS

SIPDIS

DEPT PASS TO EX-IM KVRANICH AND BUBAMADU
TREASURY FOR ASEVERENS AND SRENENDER
USDOC FOR 3317/ITA/OA/KBURRESS
PASS OPIC FOR ZHAN AND MSTUCKART
PASS TDA FOR NCABOT
PASS USTR FOR ASST USTR SLISER

E.O. 12958: DECL: 02/01/2016

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SUBJECT: BANK REFORMS AND 2007 ELECTIONS (PART II)

REF: A. LAGOS 34

[1](#)B. 05 LAGOS 1405

Classified By: Consul General Brian L. Browne
for reasons 1.4(b) and (d).

Summary

[11.](#) (C) The Central Bank of Nigeria (CBN) recently revoked the operating licenses of 14 banks that failed to meet CBN capitalization requirements. Industry experts expect more banks to be liquidated. In the meantime, most of the newly emerged 25 bank groups are struggling with post-merger integration challenges. However, the top three or four banks face little or no integration challenges and are using this time to get a headstart against the other banks by consolidating their positions within the sector. Insiders anticipate the CBN will implement policies which indirectly solidify the positions of banks loyal to the Administration. Meanwhile, major debtors, some being President Obasanjo's most vociferous political opponents, continue to be placed under the financial microscope of the Economic and Financial Crimes Commission (EFCC). End Summary.

14 Banks Liquidated; Delay in Depositor Payment

[12.](#) (U) On January 16, the CBN revoked the licenses of 14 banks: Afex Bank, Allstates Trust Bank, Assurance Bank, City Express Bank, Eagle Bank, Fortune International Bank, Gulf Bank, Hallmark Bank, Lead Bank, Liberty Bank, Metropolitan Bank, Societe Generale Bank, Trade Bank, and Triumph Bank. These are the banks that failed to reach the naira 25 billion (USD 192 million) recapitalization hurdle. According to the CBN, these banks accounted for naira 177 billion (USD 1.36 billion) of bank deposits, of which naira 107 billion (USD 823 million) were uninsured and naira 70 billion (USD 538 million) were insured. Industry experts said Africa International Bank (AIB) was acquired by Diamond Bank Group, but the deal has not been finalized.

[13.](#) (C) Nigeria Deposit Insurance Corporation (NDIC) Receivership and Liquidation Deputy Director Alhaji Isiaq

said the CBN's naira 70 billion (USD 538 million) figure for insured deposits was misleading. This calculation assumes amendment of the current NDIC Act, increasing the maximum amount insured from naira 50,000 (USD 385) to naira 200,000 (USD 1538). Isiaq felt the amendment was quixotic, and that ultimately NDIC would only pay private sector depositors a maximum of naira 50,000. He estimated the actual amount NDIC would pay private sector insured depositors would be between naira 17-20 billion for the 14 liquidated banks.

¶4. (C) Nigeria Deposit Insurance Corporation (NDIC) Field Examination Deputy Director O.M. Sulaimon argued it would take at least 3 months before actual disbursement of private sector insured deposits would begin through the old deposit pay-off system. According to Sulaimon, delays in obtaining court orders authorizing NDIC to liquidate failed banks, compiling depositors' registers, and reconciling records which were often kept manually would take months. Six months was not an unreasonable timeline, he said.

More Banks to Follow?

¶5. (SBU) Bank insiders believe some of the 25 newly formed bank groups, still run the risk of having their licenses revoked in the coming months. The bank groups most often cited for possible failure are: Spring Bank Group (a merger between Citizens Bank International, African Continental Bank, Guardian Express Bank, Omega Bank, Fountain Trust Bank, and Trans International Bank), Unity Bank Group (a merger between Intercity Bank, First Interstate Bank, Tropical Commercial Bank, Bank of the North, New Afric Bank, Centerpoint Bank, NNB International Bank, Pacific Bank, and

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Societe Bancaire), and Skye Bank (a merger between Prudent Bank, EIB International Bank, Bond Bank, Reliance Bank, and Cooperative Bank).

¶6. (C) Investment Banking and Trust Company (IBTC) Executive Director Sola David-Borha said the CBN would begin post-integration verification of assets in February to uncover misrepresentation of assets, cover-ups, and other previously unidentified errors. Bank experts believe the verification process would reveal that some banks did not actually meet CBN capitalization requirements and would be liquidated in coming months.

Only the Top Banks Benefit

¶7. (C) Bank insiders claimed UBA, Union Bank, and First Bank, as well as politically-connected new generational banks like Zenith, are the true beneficiaries of reform. Zenith Bank Chief Economic Strategist Chris Onyemenam said only three or four banks would be able to raise USD 1 billion (naira 130 billion) to meet the CBN's requirements to manage foreign reserves. UBA Executive Director Chika Mordi said no Nigerian banks currently meet the requirement, but suggested a few will through partnerships with international banks. Onyemenam believes the CBN will implement policies which indirectly solidify the positions of banks loyal to the Administration. First Bank Nigeria Capital Limited Executive Vice-President, Kofo Majekodunmi, said the reforms were never meant to empower banks besides the top three or four largest banks to compete for management of the country's foreign reserves. Every other bank is at a clear disadvantage, he said.

¶8. (C) Onyemenam said Nigeria currently has six Settlement Banks: Zenith, Afribank, GTBank, UBA, Union Bank, and First Bank. They meet daily with the CBN to exchange checks and serve as clearing houses for other banks. Post-consolidation, to become a Settlement Bank, a bank is

required to have naira 15 billion (USD 115 million) collateral in Federal Treasury bills, and have branches in all 22 CBN locations. He predicted the CBN would likely reduce the number of Settlement Banks to three or four by raising the collateral base requirements, thereby solidifying the position of politically connected banks such as Zenith. Bank insiders said the CBN would likely introduce policies to limit which banks qualify to serve Federal Government departments and parastatals. Currently, that function is handled by the CBN. Bank insiders predict only the Settlement Banks would qualify.

Aggressively Expanding Branches;
But Wealth Concentrated in Urban Areas

¶9. (SBU) UBA Executive Director Chika Mordi said the big banks would be pushing to establish more branches throughout Nigeria and abroad. He said UBA plans to add 105 additional branches to its current 425. UBA is no longer looking at postal sector reform to increase their distribution networks, he said. Instead, UBA would partner with one of Nigeria's major telecommunication providers to increase distribution networks. The telecom provider would offer subscriber identification module (SIM) cards allowing users to open and access UBA bank accounts, he said. However, he said this is unlikely to occur anytime soon.

¶10. (U) Bank insiders believe newly emerged bank groups would expand branch operations predominantly in urban areas with large populations and abundant economic activity. The impact on rural communities would be minimal, despite CBN goals to expand banking access in rural areas.

EFCC Targets Governors & Next-of-Kin

¶11. (C) Bank sources said the Economic and Financial Crimes

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Commission (EFCC), in addition to freezing over 23 bank accounts of Plateau State Governor Joshua Dariye, aimed to target other opponents of President Obasanjo in the coming months. They said the EFCC was targeting relatives of prominent government officials, including their children. An inside bank source said Victor Odili, Rivers State Governor Peter Odili's brother, was a major shareholder of Liberty Bank, one of the 14 failed banks. (Comment: Odili's brother could be a barometer of the impartiality of the EFCC and of the banking sector reform. Governor Odili is clearly an Obasanjo ally. Should his brother be spared while others similarly situated are placed under the EFCC and/or CBN microscope, that would be a sign of a skewed playing field. Conversely, if Victor Odili does not get special treatment, it would be evidence of impartiality. End Comment.)

¶12. (C) Lagos EFCC Director of Operations, Ibrahim Lamorde, said his organization, in close coordination with the CBN, was investigating financial corruption charges against the governors of Taraba, Adamawa, Zamfara, Enugu, and Abia states, in addition to current investigations against Bayelsa and Plateau State governors over financial impropriety. He said EFCC strategy was to target such individuals by examining financial records of family members and individuals who directly or indirectly assisted these state governors.

Comment

¶13. (C) While introducing more order and discipline into the sector, bank recapitalization also appears to be an instrument for improving the position of pro-Administration banks. Those closely linked to the Administration appear

likely to benefit most from CBN policy pronouncements. Those that do not have such ties, will be at a competitive disadvantage. Moreover, for the majority of Nigerians, bank recapitalization will have little impact on their access to credit. Wealth will continue to be concentrated in large urban centers, and increasingly in the hands of a small, pro-government elite. End Comment.

BROWNE